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H FOR CINDY CHANG
WHA/BSC FOR DOUGLAS BARNES

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SUBJECT: ARGENTINA SCENE-SETTER FOR CODEL MCCONNELL

Classified By: Ambassador Lino Gutierrez for Reasons 1.4 (B) and (D).

11. (C) INTRODUCTION AND SUMMARY: On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina on January 10-12. Your visit comes at a time of considerable ferment in the Argentine political and economic arenas. On October 23, President Kirchner won a resounding victory in mid-term legislative elections. Based on these results, Kirchner has tightened his already firm personal control of political and economic policy. Kirchner's performance at the recent Summit of the Americas gained no new friends for Argentina. His criticism of the U.S. during his Summit speech and his recent collaboration with Hugo Chavez has complicated our bilateral relationship. As a member of the UNSC, Argentina has worked closely with us on issues such as UN reform, counterterrorism, non-proliferation, and regional issues such as peacekeeping in Haiti. Argentina is seeking to consolidate its impressive economic recovery from the 2001-2002 crises. It has successfully restructured over USD 81 billion of private debt, following the largest sovereign default in history. Argentina also just canceled its debt with the IMF by paying the remaining nearly USD 10 billion it owed to the Fund. The debt restructuring will be a key component in reintegrating Argentina into world capital markets. END INTRODUCTION AND SUMMARY.

Background

12. (C) Argentina was once one of the richest countries of the Hemisphere, achieving a GNP per capita that was among the highest in the world in the early 20th century. However, the history of Argentina over the last 70 years has been one of economic decline and political instability. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, a fertile land and manageable population numbers, could have fallen so far. Some blame the military dictatorships, which controlled events from 1930-1983; others blame Peron and "Peronism;" and a significant number blame external factors: the IMF, the U.S., and, to a lesser extent, Europe. Gone are the "carnal relations" with the U.S. when Argentina stood out as one of the top U.S. allies in the world during the administration of former President Carlos Menem during the 1990s. The 2001-2002 economic crisis, the worst in Argentine history, changed all that. The election of left-wing Peronist Nestor Kirchner in 2003 marked a different approach in Argentine foreign policy, aligning Argentina more closely to Brazil, MERCOSUR, and Venezuela. That said, Kirchner has cooperated closely with the U.S. on a number of issues, including counter-terrorism and narcotics,

and regional problems like Bolivia and Haiti.

Political Landscape

¶3. (SBU) Kirchner won a major victory in the October 23 legislative and provincial elections. Kirchner gained a strengthened mandate and beat out his rivals for control of the ruling Peronist Party (PJ). Kirchner is politically strong at home and faces a weak and divided opposition. Argentines give Kirchner much of the credit for the country's Phoenix-like recovery from its 2001-2002 economic crisis, an event equivalent to our Great Depression. His already high approval ratings climbed last year after the conclusion of an audacious debt exchange offer that offered private creditors just over thirty cents on the dollar.

¶4. (C) Kirchner revels in a confrontational style, and is quick to pick public fights with business leaders, foreign officials, the Catholic Church, his own military, and political opponents. Two examples in the past year are illustrative. In the aftermath of a drug scandal at the international airport in Buenos Aires, Kirchner fired virtually every senior general in the Air Force (which was responsible for maintaining airport security) for failing to inform him of the ongoing investigation until five months after it had begun. Kirchner also called for a national boycott of Shell Oil gas stations because of price hikes at the pump. Groups of unemployed workers loyal to Kirchner promptly blockaded Shell gas stations across the country, causing a 70% drop in sales. Kirchner later called Shell "among the worst companies in the world."

Argentina Fumbles Summit of the Americas

¶5. (C) President Nestor Kirchner's performance at the November 4-5 Mar del Plata Summit of the Americas gained no new friends for Argentina. As chairman of the Summit deliberations, he treated fellow leaders like errant schoolboys and forged disunity where consensus may have been possible. On the plus side, we reached our essential Summit goals in the Declaration and Plan of Action and 29 of the 34 Heads of State present voiced support for the launch of FTAA negotiations. However, Kirchner's obsessive focus on the International Monetary Fund in his meeting with President Bush, his explicit - and harsh - criticism of the United States during his Summit speech, and his collaboration with Hugo Chavez and the hard left will complicate our bilateral relationship. Nevertheless, we do not expect Kirchner's undiplomatic public posturing in Mar del Plata to affect the excellent cooperation we continue to receive from Argentina on the key issues of counter terrorism, counter narcotics, and nonproliferation. Although many Argentine foreign policy elites are privately aghast at Kirchner's Summit behavior and press reaction has been mostly critical, we do not expect him to pay a domestic political price.

Recalibrating our Relationship

¶6. (C) Kirchner's unfriendly attitude towards the United States at the Mar del Plata Summit where he singled out the United States for its support of IMF policies that had brought "instability...misery, and poverty" to the region, coupled with his government's open flirting with Hugo Chavez, has established a new marker in our bilateral relationship. Our policy to date had been to engage Kirchner often, and provide him with the tools and support that would enable his administration to succeed, and by extension, enable Argentina to recover and prosper. We continue to have a wide range of important interests and equities in Argentina, many of which directly contribute to the security of the United States. Argentina also remains a fully functioning democracy that protects human rights and basically abides by free market principles. Nevertheless, in the wake of the Summit we need to focus most closely on our core interests, and be less attentive to issues that primarily boost Kirchner's standing

in Argentina.

Kirchner's New Cabinet

¶7. (C) On November 28, the Casa Rosada named replacements for several key cabinet positions. The most troubling nominee, given her history of pro-Chavez and pro-Castro statements, is the naming of former Ambassador to Venezuela Nilda Garre as the new Defense Minister. A major surprise was the announcement that Banco Nacion President Felisa Miceli would replace Roberto Lavagna as Minister of the Economy. Appointing Miceli as the new Minister of the Economy placed economic policymaking firmly in Kirchner's hands. Kirchner has proven to be an unpredictable economic policymaker. Deputy Foreign Minister Jorge Taiana was tapped to be the new Foreign Minister. Taiana has been the intellectual powerhouse for the left in the Foreign Ministry during the Kirchner administration. During an August 10 breakfast, Taiana told me and the DCM that Kirchner would continue to be very focused on domestic politics for the remaining two years of his term. Taiana also cautioned us not to expect Kirchner to initiate a more active foreign policy in the wake of a big election win. Long-time Alicia Kirchner associate Juan Carlos Nadalich was announced as the new Minister for Social Development. The cabinet changes do not alter our fundamental strategic interests in Argentina, but they will make it more difficult for us to pursue them.

Economic Situation

¶8. (U) Argentina has had an impressive economic recovery since suffering the worst economic crisis in its history -- including the largest sovereign default in history and a devaluation of its currency -- in 2001-02. An export-led boom triggered an 8.7 percent surge in real GDP in 2003, 9 percent in 2004, and estimated growth of 7.8 percent in 2005. The Kirchner Administration has ably managed the nation's public finances and achieved large budget surpluses. Investment has increased to 18 percent of GDP, but still is below the GOA's target. Unemployment declined to 12.1 percent in June, but has not fallen as fast as the economy is growing, largely due to a slow recovery in the service sector. Poverty has also fallen from the post-crisis level of 60 percent, but remains stubbornly high. During the first half of 2005, 38.5 percent of the population was living below the poverty line and 13.6 percent was considered destitute.

¶9. (U) Argentina's robust economic recovery is the result of major economic reforms in the 1990s, the adoption of a market-based exchange rate regime in early 2002, and the combination of high commodity prices and low interest rates. Argentina has sound economic fundamentals and should continue to perform well in 2006, but will need to lower its inflation rate (6.1 percent in 2004, an estimated 11.4 percent in 2005) and increase investment to sustain its growth, reduce unemployment and poverty. Argentina negotiated a debt exchange with 76 percent of its creditors in 2005. Argentina canceled its debt with the IMF on January 3, 2006 by paying the nearly USD 10 billion it owed to the Fund.

Regional Influence

¶10. (C) Argentina has played a positive role in promoting human rights and democratic institutions in the hemisphere, particularly in Haiti and Bolivia. Along with a number of its neighbors, Argentina currently has 575 peacekeeping troops in Haiti in support of MINUSTAH, reflecting its traditionally strong support of UN peacekeeping operations and commitment to Haiti. President Kirchner has been a strong supporter of constitutional democracy in Bolivia over the last year. Argentina sent a group of election observers to the recent presidential elections in Bolivia, headed by former Argentine Vice President and current Mercosur President, Carlos "Chacho" Alvarez. In a December 22 meeting, Foreign Minister Taiana told me that Argentina's

policy towards Bolivia mirrors the U.S. policy of constructively engaging the new GOB and steering them in a moderate direction.

¶11. (C) In Venezuela, President Kirchner also played a constructive role in pressing Chavez to hold a recall referendum in 2004 and met with the Venezuelan opposition on two occasions in 2004. More recently, Argentina has sought stronger economic ties with Venezuela. President Kirchner traveled to Puerto Ordaz to meet with Chavez November 22 to discuss a proposed gas pipeline. In January 2005, Argentina assumed a two-year seat on the UN Security Council.

Strong on Counter-Terrorism

¶12. (C) Kirchner's administration has strongly supported counter-terrorism policies. The GOA has ratified all of the 12 international counter-terrorism conventions. Argentina is a participant in the Three Plus One regional mechanism, which focuses on possible terrorist-related activity in the Tri-border region between Argentina, Brazil, and Paraguay. Its border police, federal police, coast guard, and intelligence services provide excellent cooperation on monitoring potential terrorist activity, especially in the Tri-border area. The GOA continues to make efforts to strengthen its Financial Intelligence Unit to combat money laundering and to beef up its National Arms Control Registry (RENAR) in order to get a handle on the production and sale of explosives.

Equally Strong on Non-Proliferation

¶13. (C) In numerous meetings with senior State Department officials, the GOA has voiced strong agreement on almost all of our arms control and nonproliferation objectives. On Iran, the GOA favors a tough line. It voted with the United States at the September 24 IAEA Board of Governors meeting to refer Iran's noncompliance to the UNSC. The GOA is the only South American country to have endorsed the Proliferation Security Initiative (PSI) and has offered to host a PSI exercise. On the IAEA Additional Protocol, the Argentines traditionally have followed the Brazilians, but indicated that they will eventually sign the AP with or without the Brazilians. Finally, the GOA has implemented the Container Security Initiative (which scans containers for WMD components) and is in the final stages of negotiating an MOU on the Megaports Initiative -- which will passively detect radioactive materials moving through the Buenos Aires seaport -- the first such agreement in South America.

Military-Military Cooperation

¶14. (C) The U.S. military enjoys excellent relations with their Argentine counterparts. Argentine forces participate frequently in exercises with U.S. and regional forces (outside of Argentina) and are currently contributing about 575 troops to the Haiti PKO. We are stymied, however, by the lack of a political-level agreement on immunities, (i.e. administrative and technical immunities, as defined in the Vienna Convention on Consular Relations, which would be extended to U.S. service members on exercises in Argentina). The lack of this type of agreement precludes many bilateral exercises on Argentine territory. The Argentines unfortunately confuse the immunities issue with Article 98, which deals only with the International Criminal Court. We are looking at a long-term Status of Forces Agreement to resolve these issues.

GUTIERREZ